

# PHILIPPINES ECONOMIC WRAP-UP

## MARCH 31 - APRIL 6, 2001

### ----- Summary -----

As interest rates rebounded from lows and the peso continued to depreciate, Philippine stocks admirably held their own this week. March inflation held steady at 6.7%. Exports in February were down 3.3% (year-on-year) reflecting the global slowdown in demand for electronics. In banking news, non-performing loan (NPL) ratios continue to rise, and a much anticipated buy-in into Equitable-PCI Bank was cancelled at the last minute. President Arroyo personally welcomed two significant new U.S. investors to the former Clark Airbase in central Luzon. And we also provide updates on external debt (\$52.1 billion as of December 31, 2000) and Balance of Payments data (\$512 million deficit as of end-2000).

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). Readers should note that we will not publish the 'Wrap-Up' on April 13 due to local Philippine holidays. We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site.

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**Market and Policy Developments**  
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**FOREX REPORT**  
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Sentiment that a recovery in regional currencies may be unsustainable combined with domestic concerns to send the peso back above the P50/US\$ level this week. Traders indicated that demand for dollars remains high while investment inflows are unlikely to resume in quantity until after national elections in May. From its March 30 close of at P49.510/US\$, the peso weakened to close at P50.20/US\$ on April 6.

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**Exchange Rate Tables**  
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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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FEB 26	48.094	48.230	125.0
27	48.263	48.265	129.5
28	48.286	48.280	93.7
MAR 01	48.374	48.470	100.1
02	48.490	48.340	125.5
MAR 05	47.812	47.670	114.5
06	47.666	47.660	121.1
07	47.799	47.905	140.5
08	48.002	47.910	163.0
09	47.982	48.065	164.5
MAR 12	48.177	48.145	138.8
13	48.159	48.160	130.8
14	48.141	48.200	66.0
15	48.367	48.430	148.5
16	48.627	48.500	149.2
MAR 19	48.551	48.505	128.5
20	48.496	48.440	131.7

21	48.580	48.633	150.1
22	48.797	48.955	159.5
23	49.048	49.135	138.0
MAR 26	49.221	49.185	64.8
27	49.120	49.165	87.0
28	49.208	49.215	107.5
29	49.378	49.355	157.1
30	49.371	49.510	122.4
APR 02	49.717	49.770	104.0
03	49.743	49.730	140.0
04	49.880	50.160	137.9
05	50.182	50.175	139.9
06	50.372	50.200	160.6

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Source: Bankers Association of the Philippines

#### CREDIT MARKET REPORT

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Expectations of a weaker peso caused jittery traders to push interest rates on Treasury bills up at the April 2 auction. From a 2001 low of 9.059% last week, rates on the 91-day T-bill rose 55.2 basis points to settle at 9.611%. Longer term bills also saw their interest rates rise: the 182-day bill rate increased 14.8 basis points to 10.479% and the 364-day bill rate increased 6.9 basis points to 11.026%. Traders echoed the sentiments of National Treasurer Sergio Edeza in saying that rates on the 91-day bills will not be sustainable below 9% without further cuts in Bangko Sentral ng Pilipinas (BSP, the central bank) overnight rates (currently at 10% and 12.25% for borrowing and lending, respectively). Edeza also said that further movement will depend on March inflation figures (see below). The BSP did not move on overnight rates at a meeting of the policy-making Monetary Board on Thursday, saying instead it would continue to follow the U.S. Fed's lead on interest rate cuts.

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Domestic Interest Rates (in percent)

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Treasury Bills

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Auction Date	91 days	182 days	364 days
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FEB 26	10.456	11.783	12.497
MAR 05	10.328	11.560	12.453
MAR 12	9.893	10.983	11.788
MAR 19	9.656	10.356	11.340
MAR 26	9.059	10.331	10.957
APR 02	9.611	10.479	11.026

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

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Date of Survey	Average	Range
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MAR 01	14.5759	12.25 - 19.00
MAR 08	14.3913	12.00 - 19.00
MAR 15	13.6914	11.50 - 15.25
MAR 22	13.5156	11.25 - 14.656
MAR 28	13.0484	10.75 - 14.50
APR 05	13.1808	10.75 - 14.611

Sources: Bangko Sentral ng Pilipinas; Press reports

**STOCK MARKET REPORT**

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The Philippine stock market showed resilience this week in comparison to the turmoil rocking other world markets. However, pre-holiday trading volumes remain at near record low levels. From its March 30 close of 1446.40, the 33-share Philippine Stock Index (PHISIX) inched up 1.71% to close on April 6 at 1471.13.

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Philippine Stock Exchange Index (PHISIX) and  
Value of Shares Traded

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Date	PHISIX	Value
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-----	Close	(Million pesos)
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FEB 24	1636.04	498
25	1632.30	344
26	1613.49	995
MAR 01	1570.20	735
02	1596.97	499
MAR 05	1616.54	614
06	1611.47	328
07	1612.81	312
08	1589.57	223
09	1588.39	613
MAR 12	1567.53	196
13	1526.40	348
14	1523.79	266
15	1491.79	383
16	1498.32	309
MAR 19	1507.52	374
20	1491.54	335
21	1471.56	277
22	1466.23	420
23	1431.57	486
MAR 26	1448.37	586
27	1446.99	401
28	1451.55	475
29	1430.16	346
30	1446.40	438
APR 02	1439.05	326
03	1452.26	292
04	1452.15	317
05	1460.67	588
06	1471.13	713

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Source: Philippine Stock Exchange

**MARCH YEAR-ON-YEAR INFLATION STEADY AT 6.7%**  
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The government's National Statistics Office (NSO) reported that March 2001's consumer price index (CPI) increased by 0.1% month-on-month, slowing from February's 0.2% increase. That deceleration reflected a 0.4% decline in the heavily-weighted food index (on top of a 0.5% month-on-month decline in February) as crop and fish harvests (seasonally abundant during the summer months) continued to benefit from good weather conditions. In addition, the other major non-food indices registered slower month-on-month price increases than in February: clothing (0.2% from 0.3%); housing and repairs (0.8% from 1.2%); fuel, light and water (1.1% from 1.7%); services (0.3% from 0.9%); and miscellaneous items (0.3% from 0.5%).

In year-on-year terms, the consumer price index rose by 6.7%, the same rate registered in February. The year-on-year inflation rate for food commodities slowed (to 4% from 4.3%) as did the year-on-year overall increase in the services index (to 13.9% from 14%). These offset higher year-on-year rates posted by housing and repairs (7% from 6.4%); fuel, light and water (14.3% from 13.7%); and miscellaneous items (7.4% from 7.1%). Year-on-year inflation averaged 6.8% during the first three months of 2001. The government's goal for the full-year is for average year-on-year inflation in the 6% to 7% range.

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 PHILIPPINE CONSUMER PRICE INFLATION  
 (IN %)  
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	Year-on-Year	Month-on-Month
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Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5
Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7

Average		
Jan-Mar	3.0	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Average		
Jan-Mar	6.8	

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Source: National Statistics Office

**FEBRUARY EXPORTS DECLINE 3.3% YEAR-ON-YEAR**  
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According to the National Statistics Office (NSO), export receipts -- which expanded by 6.3% year-on-year in January -- declined by 3.3% in February. Receipts from electronic equipment and parts shrank by 7.5% after expanding by 6% the month before. Cumulatively, total export revenues barely expanded by 1.3% from 2000's comparable two-month level, with receipts from electronics (57% of total export receipts) down 1% year-on-year.

Although still subject to inter-agency discussions, economic planning officials hinted of a possible re-assessment (with a downward bias) of the government's current 3.8-4.3% targeted GDP growth range. They noted the emerging, bleaker-than-expected export prospects indicated by the latest trade figures. The current GDP target assumes a 4% year-on-year expansion in US\$ export revenues, with receipts from electronics about flat.

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PHILIPPINE MERCHANDISE EXPORTS  
(In US\$ Millions)  
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	January 2000	February 2001	Growth (%)
TOTAL EXPORTS	5,618.9	5,694.3	1.34
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Agro-Based Products	253.9	249.5	(1.73)

Forest Products	3.2	2.6	(18.75)
Mineral Products	126.5	79.3	(37.31)
Petroleum Products	51.4	52.4	(14.66)
Manufactures	5,032.1	5,155.5	2.45
Electronics Equip. & Parts	3,292.6	3,260.1	(0.99)
Others (mainly re-exports)	151.7	154.9	2.11

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Source: National Statistics Office

#### **BANKING NOTES**

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**NPLs Up In January:** From 15.1% as of end-2000, the ratio of commercial banking system's non-performing loans (NPLs) to total loans (including inter-bank credits) rose to 16% in January 2001. The highest NPL ratio thus far since the Asian crisis was 16.3% (registered in November 2000). January 2001's higher NPL ratio reflected a 3% (P7.3 billion) month-on-month expansion in the nominal level of bad loans and a 2.9% (P46.7 billion) contraction in total commercial bank credits. Loan restructurings and asset foreclosures also slowed month-on-month compared with the more aggressive stance registered in December. Year-on-year, outstanding loans of the commercial banking system, inclusive of inter-bank credits, grew by 4.5%; excluding inter-bank credits, outstanding loans grew by 7.4%.

When the December 2000 numbers were released in late February, bankers hesitated to conclude that NPLs had peaked. They noted that businesses had operated under especially difficult and volatile conditions from October 2000 through the early months of the new year (including a high interest rate regime) -- which could subsequently result in higher repayment delinquencies. Credit growth also has been "tentative" thus far, reflecting the cautious stance taken by both borrowers and lenders.

#### ----- SELECTED INDICATORS FOR COMMERCIAL BANKING SYSTEM -----

Jan.	Dec.	Jan.
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	2001 ----	2000 ----	2000 ----
Amounts (P Billions)			
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Total Loan Portfolio (TLP) a/	1,581.6	1,628.2	1,513.0
Non-Performing Loans (NPL)	253.1	245.8	203.2
Loan Loss Reserves (LLR)	108.1	107.2	94.0
Restructured Loans (RL)	98.5	99.2	76.0
Foreclosed Assets (FA, net)	129.8	128.2	99.9
Non-Performing Assets (NPA) b/	382.9	374.0	303.1
Total Assets (TA)	3,183.0	2,996.5	2,633.8
Ratios (In %)			
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NPL/TLP (NPL Ratio)	16.00	15.10	13.43
RL/TLP	6.23	6.09	5.02
LLR/NPL	42.70	43.61	46.29
LLR/TLP	6.83	6.58	6.22
FA/TA	4.08	4.28	3.79
NPA/TA	12.03	12.48	11.51

a/ Includes interbank loans

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Source: Bangko Sentral ng Pilipinas

**Equitable-PCI:** Early this week, three groups -- Fubon Group of Taiwan, U.S.-based Newbridge Capital, and the Gokongwei family's JG Summit Holdings -- tendered proposals to buy into Equitable PCI Bank. Equitable PCI officials said that up to 35% ownership would be up for sale. They also indicated that unissued shares would likely be sold (rather than shares currently held by existing shareholders) to boost Equitable PCI's capital base. By the end of the week, however, the bank's board announced that it had rejected the buy-in offers and was opting for a capital-raising program from existing shareholders. A number of industry sources quoted in press interviews said the bids were probably "too low". Equitable PCI, which suffered heavy withdrawals, has not fully recovered from the stigma of its involvement with then President Estrada's impeachment trial. Its major shareholders are the Go family (30%) and the two state-run pension funds (the Social Security System and Government Service Insurance System with a combined stake of over 35%).

## **PRESIDENT ARROYO WELCOMES "SUPERSTARS" TO CLARK**

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On April 5 (her birthday) in Pampanga (her home province), President Gloria Macapagal-Arroyo welcomed the entry of United Parcel Service (UPS) and Lockheed -- referring to these companies as "two superstars that are household names". The President witnessed the signing of a Letter of Intent (LoI) between United Parcel Service (UPS) and the Department of Trade and Industry (DTI) and a Memorandum of Understanding (MoU) between UPS and Clark Development Corporation (CDC). UPS plans to invest \$300 million to establish a regional hub in Clark. The company began operations in 1988 through a local service agent (Delbros Inc.), with which it eventually formed a joint venture firm (UPS-Delbros). As a regional hub, DTI Secretary Manuel Roxas said UPS was planning to dedicate at least 10 flights daily during its initial year (from the current five weekly flights from Manila). UPS joins Federal Express Corp., which has been operating a regional hub at the former Subic naval base since 1997.

At an earlier event that day at the Clark International Airport, President Macapagal-Arroyo unveiled the marker for the aerospace maintenance facility of U.S.-based Lockheed Martin -- where she and other visitors also witnessed the servicing of a C-130. According to Lockheed officials, Phase 1 of the project (initially a one-bay hangar) will be followed by the construction of three more C-130 bays (comprising Phase 2). The Lockheed project also includes a Helicopter Remanufacturing Center.

## **UPDATE: EXTERNAL DEBT AND BOP**

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**External Debt:** According to the latest quarterly estimates, the Philippines' outstanding external debt (based on foreign credits approved by and registered with the Bangko Sentral ng Pilipinas) stood at \$52.1 billion as of end-2000. That level represented a slight increase (\$214 million) from end-October and a \$150 million decline year-on-year. Net borrowings expanded by \$1.2 billion during the fourth quarter but were partially offset by currency revaluation adjustments during the

period (mainly a weaker Japanese yen vis-à-vis the US\$). Medium and long-term loans constituted nearly 89% of outstanding external obligations. These loans had a weighted average maturity of 17 years. Almost half of external obligations were obtained from official creditors (defined as foreign governments and their export credit agencies, and international financial institutions) at more concessional terms. Full-year 2000 debt service payments equaled 12.3% of goods and services export receipts (from 13.3% in 1999).

**BoP:** The Philippines ended 2000 with a balance of payments (BoP) deficit of \$512 million, a reversal from 1999's \$3.6 billion surplus. The current account surplus widened from \$7.6 billion to \$9.3 billion. Merchandise exports (up 9%) slowed from its 1999 rate of expansion (18.8%) but nevertheless outpaced import growth (3.9%) -- yielding a trade surplus of \$6.9 billion (from \$5 billion in 1999). However, shaky investor sentiment, net repayment of short-term credits, and smaller foreign borrowings produced a much larger net outflow in the capital and financial account. The government expects improved investor confidence to push the BoP back in the black this year.